



May 27, 2011

Ex Parte Notice

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Developing a Unified Intercarrier Compensation Regime, CC Docket 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Lifeline and Link-Up, WC Docket No. 03-109

Dear Ms. Dortch:

On Thursday, May 26, 2011, Shirley Bloomfield, Chief Executive Officer, and the undersigned from the National Telecommunications Cooperative Association (“NTCA”) met with Margaret McCarthy, the wireline legal advisor to Commissioner Michael Copps, to discuss matters related to the above-referenced proceedings.

Specifically, NTCA provided the attached summary of the universal service fund (“USF”) and intercarrier compensation reform plan (the “Plan”) that it had previously submitted in cooperation with national, regional, and state rural telecom associations in these proceedings. NTCA indicated that the Plan builds upon and incorporates the most effective components of the current high-cost USF program – a mechanism that has enabled small rural local exchange carriers (“RLECs”) to expand broadband availability from 79% to over 92% of households in their serving areas over the past 5 years, all at a compounded annual growth rate in USF support of only 3% between 2006 and 2010. As NTCA explained, given such a successful track record, this is a program that the Federal Communications Commission (the “Commission”) should look to as a model for how to encourage efficient deployment of sustainable broadband in rural America and a baseline for carefully calibrated efforts to reform and modernize USF.

At the same time, NTCA acknowledged that the current mechanisms by which RLECs receive USF support can and should be modified to enhance their sustainability, and noted several components of the Plan (as highlighted in the attached summary) that had been designed specifically to achieve this objective. NTCA also noted that the Plan would serve the goal of promoting sustainable broadband deployment in high-cost unserved areas in at least two

respects. First, the Plan contains several measures to control growth in the size of the USF, thereby helping to ensure a sensible balance between the use of USF resources to support deployment in unserved areas and to sustain the provision of affordable, high-quality broadband in high-cost, hard-to-serve rural areas. Second, the Plan would enable RLECs to continue the responsible “edging out” of broadband in rural areas in a manner (and with support) comparable to that of recent years – although NTCA also noted that additional resources would almost certainly be required if there were a desire to accelerate the pace of such deployment efforts and/or to deploy and operate in some of the hardest-to-reach corners of the areas in which RLECs operate.

NTCA also discussed the detailed evidentiary showings contained within its recent comment filings and in the numerous submissions of individual RLECs over recent weeks and months. The collective data show that a number of the proposals set forth in the Commission’s Notice of Proposed Rulemaking would have substantial adverse impacts on rural consumers who – instead of continuing to have access to reasonably comparable services at reasonably comparable rates – would experience significant declines in the quality, affordability, and availability of both telecommunications and advanced broadband services.

Finally, NTCA explained that it wholeheartedly supports the ultimate objective of furthering the ubiquitous availability of high-quality, affordable broadband to *all* Americans in as efficient and effective a manner as possible. But NTCA also explained that a short-term focus merely on *getting* broadband everywhere does little to position rural America for successful long-term participation in tomorrow’s economy. It does no good to make advanced services available in rural areas if they are then too expensive to buy, too low quality to address real consumer demand, and/or too speculative an investment to sustain or upgrade. Indeed, there is the substantial risk, as the data submitted demonstrate, of “backsliding” in high-cost, rural communities where quality affordable broadband is available today precisely because of USF support and the hard work of RLECs.

The statutory mandate for universal service includes not only making broadband service available in unserved areas, but also ensuring every customer will continue to receive reasonably comparable services at reasonably comparable rates. As carriers with decades of demonstrated commitment to serving sparsely populated, wide-ranging rural areas, RLECs can attest that deploying the network is only the first of many significant challenges to satisfying consumer demand and fulfilling consumer expectations. NTCA therefore urged that the Commission not “throw the baby out with the bathwater” in undertaking reform. Instead, with America’s broadband future hanging in the balance, NTCA encourages the Commission to retain the best of what has worked to date and build upon that proven success through surgical reform measures. The long-term success of broadband services in rural America demands such a comprehensive perspective, and at bottom, this Commission should be looking to make sustainable universal broadband its legacy.

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Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. A copy of the document distributed at the meeting is enclosed with this letter. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano

Senior Vice President - Policy

Enclosure

cc: Margaret McCarthy

RLEC-Specific USF and ICC Reform Proposal

The RLEC Plan proposes measured and reasonable alternative approaches to USF and ICC reform for RLECs. It seeks to accomplish the FCC's broadband deployment and universal service reform goals and provide a smooth transition from today's support mechanisms to tomorrow's broadband focused mechanisms. The Plan also seeks to provide RLECs who have made investments in network plant under current rules with a reasonable opportunity to recover those costs consistent with current rules. In addition, the RLEC Plan provides clear and predictable rules for recovery of future investment costs.

Step One: Implement short-term ICC reform measures that confirm intercarrier compensation is due for all traffic originating from or terminating to the PSTN regardless of technology, address "phantom traffic" problems, and deter artificial and uneconomic traffic stimulation.

Step Two: Effective January 1, 2012, implement short-term USF Reform measures on a prospective basis.

- Impose a limitation on recovery of prospective RLEC capital expenditures based on analyses of booked study area costs, to determine the portion of a carrier's loop plant that has reached the end of its useful life.
- Cap recovery of corporate operations expenses by applying the current HCL corporate operations expense cap formula to all federal high cost support programs.

Step Three: Promptly adopt rules encouraging States to move intrastate originating and terminating access rates for rural ROR carriers to interstate levels, by using incremental federal CAF funding in conjunction with a federal local service rate benchmark for access rebalancing.

Step Four: Design and implement an RLEC-specific CAF mechanism designed to re-focus existing RLEC USF support on broadband. Support under existing high-cost mechanisms including HCLS and ICLS decline as broadband-focused support phases in.

1. Start with today's interstate revenue requirements.
2. Add support for "Middle Mile" facilities.
3. Revise the separations rules so as to gradually increase last-mile interstate cost allocations based on each company's individual broadband adoption rates, transitioned in over eight years.
4. Compute RLEC CAF broadband funding amounts by subtracting the product of an urban broadband transmission cost benchmark times broadband lines in service, from actual RLEC network broadband transmission costs. Broadband transmission costs include last mile, second mile, middle mile and Internet connection costs.
5. Recover remaining interstate costs (i.e., those not recovered via RLEC CAF support, transitional ICLS, and current LSS or its CAF replacement) via a combination of end user and other customer charges. These would include today's SLCs, switched access charges (to the extent these charges continue to apply under ICC reform), and special access charges, including charges for wholesale broadband services.

Following initial implementation of the RLEC Reform Plan, the Commission should revisit results and consider the need for further modifications in 3 to 5 years.

RLEC Plan Implementation Notes

Modification of Category 1.3 and 4.13 Loop Costs Assigned Interstate

The Base Allocation Factor in section 36.2(b)(3)(iv) becomes the “Broadband Allocation Factor,” which assigns common line costs to interstate based on the study area’s broadband adoption rate. It is calculated on an individual study area basis, reflecting the ratio of that company’s broadband lines to its total lines in service. Increases in allocations above the current 25% are phased in over eight years. For example, if in year one the study area adoption rate is 65%, one eighth of the additional 40% is added to the original 25% to produce a 30% allocation factor in year one. In year two, if the study area’s adoption rate is 70%, two eighths of the additional 45% is added to the original 25% to produce a 36.25% allocation factor. The allocation factor does not go below the current 25%.

Loop costs assigned interstate are then assigned to the RLEC’s Broadband Network Transmission Cost by taking the original 25% of common line costs assigned interstate times the study area broadband adoption rate plus the additional loop costs assigned interstate based on the above (*e.g.*, additional 5% in year one example above). All naked DSL loop costs are also assigned to the Broadband Network Transmission Cost.

Transitional ICLS

The original 25% of common line costs assigned interstate times the reciprocal of the study area broadband adoption rate (*i.e.*, 1 minus adoption rate) is assigned to transitional ICLS, which declines as the broadband adoption rate increases.

High Cost Loop Support

High Cost Loop Support (HCLS) in section 36.631 is transitioned down as additional loop costs are assigned interstate based on the Broadband Allocation Factor. Each year HCLS is calculated based on current rules and compared to the additional loop costs assigned interstate based on the broadband adoption rate. For example, in a given year if an additional \$100 is assigned interstate based on the adoption rate and HCLS produces \$120, the study area receives \$20 from the HCLS grandfathering provision. This amount reflects transitional HCLS for each carrier operating in high-cost areas that qualify for HCLS under current rules; this grandfathered support will phase down over time as the carrier assigns more loop costs to the interstate jurisdiction based on broadband adoption by its customers.

RLEC Broadband Benchmark Calculation

The urban benchmark used in the RLEC broadband calculation represents urban broadband transmission costs and is intended to achieve two key policy objectives: assuring reasonable comparability of rural broadband services and reasonably constraining funding levels. The benchmark includes a fixed and a variable line component; the line component increases as additional loop costs are assigned interstate based on the study area’s broadband allocation factor. This increase is in proportion to the current SLC relationship used in ICLS. Using the above example, if the study area’s broadband allocation factor is 30% in year one, the line component would be \$7.80 (30 divided by 25 equals 1.2 times \$6.50 equals \$7.80).